Nunavut Liquor Commission
ANNUAL REPORT, 2009-10

TABLED IN THE LEGISLATIVE ASSEMBLY
BY THE HONOURABLE KEITH PETERSON, MLA
MINISTER OF FINANCE

Nunavut Liquor Commission
2009-10 Annual Report

Table of Contents

LETTER OF TRANSMITTAL 1
LETTER TO THE MINISTER 2
ORGANIZATIONAL STRUCTURE 3
NUNAVUT LICENSING AND ENFORCEMENT 4
NUNAVUT LIQUOR COMMISSION 4
MANAGEMENT DISCUSSION AND ANALYSIS & UNAUDITED SCHEDULES 8
AUDITED FINANCIAL STATEMENT 11

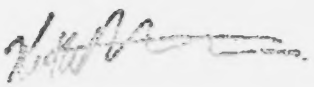
LETTER OF TRANSMITTAL

The Honourable Edna Ekhivalak Elias
Commissioner
Government of Nunavut

Dear Madame,

I have the honour of presenting the Annual Report for the Nunavut Liquor Commission covering the period April 1, 2009 to March 31, 2010.

Respectfully submitted,



Hon. Keith Peterson
Minister of Finance
Minister Responsible for Liquor

LETTER TO THE MINISTER

The Honourable Keith Peterson
Minister of Finance
Minister Responsible for Liquor

Nunavut Liquor Commission 2009 – 10 Annual Report

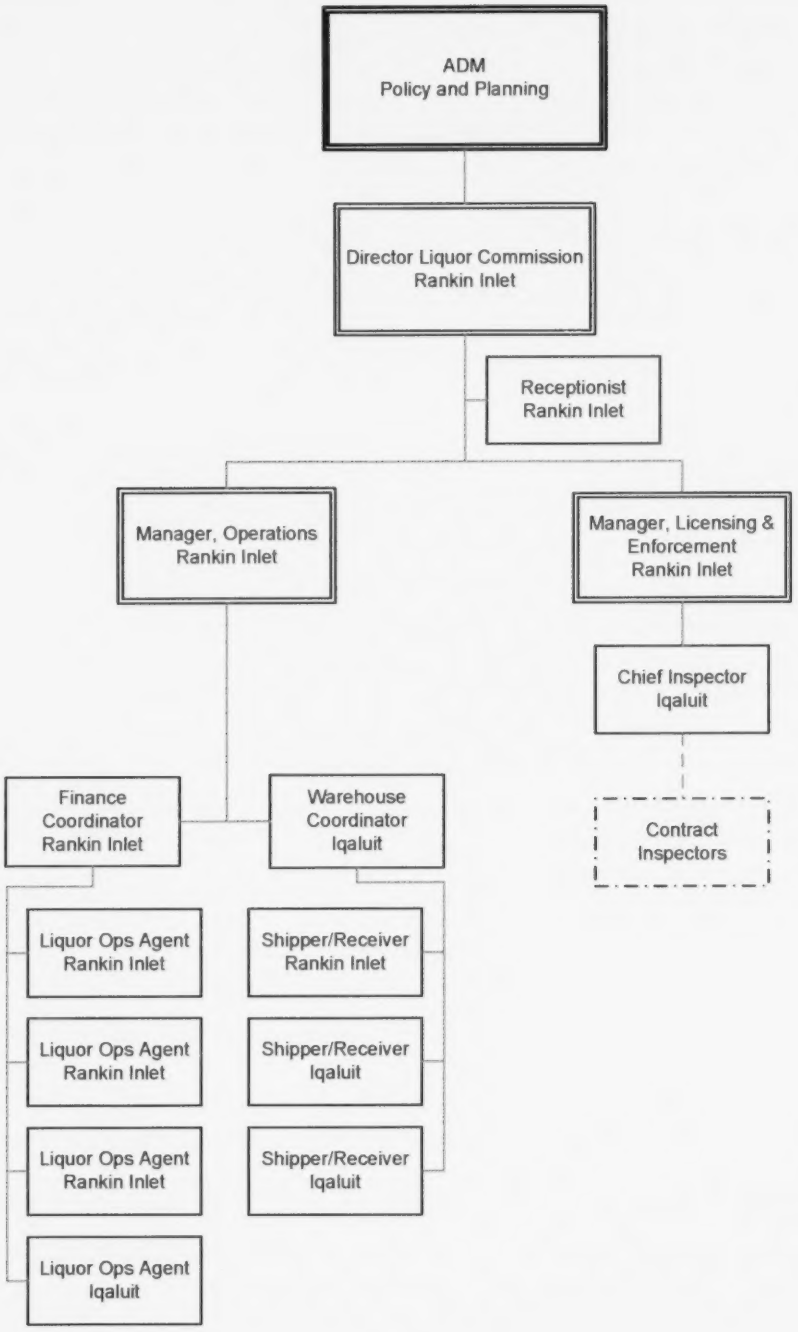
Pursuant to Subsection 9(1) and 61(1) of the Liquor Act, we are pleased to submit the 2009 – 2010 Annual Report for the Nunavut Liquor Commission for the fiscal year ended March 31, 2010.

We wish to express our thanks to all our staff for all their support and contribution to the progress of the Nunavut Liquor Commission during this past year.

Peter Tumilty
Assistant Deputy Minister

Chris D'Arcy
Deputy Minister of Finance

ORGANIZATIONAL STRUCTURE



NUNAVUT LICENSING AND ENFORCEMENT

LICENSING AND ENFORCEMENT ACTIVITY REPORT

All distribution of alcohol beverage products authorized by liquor licenses and special occasion liquor permits issued under the *Nunavut Liquor Act* (the Act) are subject to inspection by the Licensing and Enforcement branch of the Nunavut Liquor Commission (the Commission). These inspections, also known as spot checks, are to ensure adherence to the Act and Regulations. Conditions pertaining to fire risk, health and safety infractions, and the use of tobacco in and around premises licensed for the sale of liquor are also liable to inspection.

Inspections are carried out by trained contract personnel. Any infractions observed are brought to the attention of the Chief Inspector in Iqaluit, who reports to the Manager of Licensing and Enforcement at the Commission headquarters in Rankin Inlet.

Infractions are discussed with the Department of Justice and, where warranted, the licensee must attend a show cause hearing before the Nunavut Liquor Licensing Board, with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of restrictions in accordance with the Act, and may result in the suspension of a license.

The Commission keeps a roster of four contract inspectors in Iqaluit and one inspector in Rankin Inlet. In 2009-10, one inspector in Iqaluit resigned. Regularly scheduled inspections were carried out with more focus on the busier evenings through the week and weekend, while the competition to replace the inspector was conducted.

The Commission spent $27,000 dollars on spot checks, or $6,750 per liquor inspector at a rate of $30 per inspection. The total number of inspections for 2009-10 was 900 or 225 per contractor on average.

NUNAVUT LIQUOR COMMISSION

ORGANIZATIONAL OVERVIEW

The Commission is charged with operating liquor stores, purchasing, selling, classifying and distributing alcohol beverage products in Nunavut, as well as administration of Part II of the Act. The Commission follows the reporting stipulations outlined in Part II of the Act and Part IX of the *Financial Administration Act*.

The Commission, in exercising its powers and performing its duties is bound by the Liquor Act to the direction of the Minister. The Commission is headed by a Director who reports to the Minister through the Assistant Deputy Minister of Policy and Planning, and Deputy Minister of Finance, as shown in the Organizational Structure Chart on page 3. The Director oversees a staff of 13 employees, divided between Rankin Inlet and Iqaluit, along with liquor enforcement inspectors in Iqaluit and Rankin Inlet.

With its headquarters in Rankin Inlet, The Commission manages its retail and wholesale business through two distribution warehouses, one in Rankin Inlet and the other in Iqaluit. The Commission also oversees two permit agent offices on contract in Cambridge Bay and Kugluktuk, while providing Permitting services in-house in Rankin Inlet and Iqaluit. The Permit Agent Offices provide, for a fee, import permits to allow individuals to bring in liquor from outside Nunavut.

LIQUOR RETAILING IN THE TERRITORY

Nunavut's geographical and infrastructure challenges make liquor retailing in the Territory unconventional in the Canadian context. With a total population of approximately 33,000 people, the major challenge for liquor retailing in Nunavut is the need to service a very limited market, connected only by air and limited seasonal sea access, and spread out over a fifth of Canada's land mass. Among the many characteristics that set Nunavut's liquor distribution system apart from other jurisdictions in Canada, is its central processing structure. The Commission currently does not operate any liquor stores and all liquor orders are processed through the Commission's headquarters in Rankin Inlet and distributed via air cargo from either of the Commission's warehouses. Licensed outlets are the exception, where their purchases are picked up at the closest Commission warehouse.

To take advantage of the Government of Nunavut's greater purchasing power, the Commission's entire liquor inventory is purchased on behalf of the Commission by the Department of Community and Government Services' (CGS) Procurement Division.

While every effort is made to maximize warehouse space and accommodate as much inventory as possible through sealift, capacity issues with the Iqaluit warehouse necessitate a small air cargo resupply each spring to supply license holders until the shipping season starts again in the summer.

As a matter of policy, the Procurement Division of CGS attempts to buy all products directly from breweries and distilleries. Due to small order volumes, some products are purchased through the Société des Alcools du Quebec (SAQ) or the Liquor Control Board of Ontario (LCBO).

The Commission uses a flat rate per litre mark-up in the pricing of alcohol beverage products. An administration fee of $0.27 per litre is also applied.
Current mark-ups per litre are as follows:

Spirits	$ 26.11
Wine	$ 7.96
Coolers	$ 3.27
Beer	$ 2.37

The Commission's necessary reliance on air cargo for the distribution of liquor orders means that liquor purchases in Nunavut are faced with logistical considerations and additional freight and marshalling costs not commonly experienced across Canada.

One logistical hurdle concerns the payments of liquor orders through the Commission. At the present time certified money instruments that include Money Orders, Northern Store money transfers and/or Cash Link Card, certified cheque, bank draft, or direct deposit to the Commission's bank account are all accepted as payment vehicles.

The Commission also accepts credit cards (VISA and MASTERCARD) for product payment, and residents of Iqaluit and Rankin Inlet are also able to use their debit cards for product payment. Once verified payment has been received, the Commission ensures the product order is picked, packaged, and delivered to the airlines for delivery to its destination.

Over and above the product price, there is an additional charge for handling and local cartage of $10.00 (plus GST) per order, and a bottle deposit return fee. The shipment is then sent freight collect to the customer. Freight costs vary, depending on distance, community, and carrier used.

Flight schedule structures serving Nunavut impose a de facto waiting period on all liquor purchases in the Territory (Licensees and holders of Special Occasion Permits excepted). Iqaluit residents must purchase their alcohol from the Rankin Inlet warehouse and conversely Rankin Inlet residents must purchase their alcohol from Iqaluit. All other eligible residents of Nunavut may place their order at either facility. This measure ensures there are no direct sales of liquor to the public anywhere in Nunavut, except in licensed establishments.

Nunavummiut may also make a purchase through an import permit, which allows them a wider range of options for both selection and price. Should they choose to import their alcohol beverage product from outside the territory, individuals must purchase an import permit from one of the four permit agent offices in Cambridge Bay, Kugluktuk, Rankin Inlet or Iqaluit.

An import permit is required to import quantities greater than 1,140 ml of spirits or wine or 4,260ml of beer (twelve 355 ml containers). The current import permit fee structure is as follows:

Import Permit Fees	
Spirits	$3.75 per litre
Wine	$2.00 per litre
Coolers	$0.59 per litre
Beer	$0.56 per litre

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their community's AEC to seek approval to bring beverage alcohol into the community. The AEC may place restrictions on the purchase or even deny the application (see Table 1 for liquor restriction systems and Table 2 for community system breakdown). Once an individual has obtained permission from the community AEC an order may be placed or a permit purchased.

One final aspect of liquor retailing in Nunavut is the Commission's effort at encouraging recycling in the Territory through container deposits. The Commission places a container deposit on all liquor purchases made, whether bottle, can, or other, and is prepared to accept returned empty liquor containers at any established recycling centre. A container return centre only exists in Iqaluit. The Commission charges $0.29 for bottles and $0.14 per can and gives back $0.25 per bottle and $0.10 per can.

Table 1. Nunavut's Liquor Restriction Systems

The *Liquor Act* provides Nunavummiut with a ranked liquor restriction structure based on four systems, ranging from standard access to total exclusion. Communities choose their appropriate system by plebiscite. Described under section 48.2 of the Act these systems are:

1. An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;
2. A restricted quantities system in which, in addition to the general liquor laws, the quantity of liquor that a person may purchase is limited;
3. A committee system, in which a locally elected alcohol education committee decides:
    - who may consume, possess, purchase or transport liquor in the settlement, municipality or area,
    - who may import liquor into the settlement, municipality or area under the Act,
    - the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,
    - who may apply for a wine permit in the settlement, municipality or area and the amount of wine that a person may apply to make, and
    - who may brew beer for personal or family consumption in the settlement, municipality or area and the amount of beer that a person may brew;
4. A prohibition system, which prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.

Table 2. Breakdown of communities by their chosen systems:

Unrestricted System	Committee System	Prohibition System
Cambridge Bay	Arctic Bay	Arviat
Grise Fiord	Baker Lake	Coral Harbour
Iqaluit	Cape Dorset	Gjoa Haven
Rankin Inlet	Chesterfield Inlet	Kimmirut[1]
Taloyoak	Clyde River	Kugaaruk
	Hall Beach	Pangnirtung
	Igloolik	Sanikiluaq
	Kugluktuk	
	Pond Inlet	
	Qikiqtarjuaq	
	Repulse Bay	
	Resolute Bay	
	Whale Cove	

[1] Changed to a committee system in 2012.

MANAGEMENT DISCUSSION AND ANALYSIS & UNAUDITED SCHEDULES

Fiscal 2009-10 was the Commission's fifth full year of operations, since taking over responsibiiity for the public agency from the Government of the Northwest Territories in October of 2004. The Commission's functions had been managed by the NWT Liquor Commission under a service agreement since 1999.

Overall, the Commission sold 595,331 liters of alcohol, in Nunavut worth $5,534,650. Below is a chart illustrating a breakdown of the Commission sales by category of alcohol.

	2009-10		2008-09		Change vs 2008-09	
	Litres	$000s	Litres	$000s	Litres	$000s
Spirits	41,671	1,680	41,569	1,547	102	133
Wine	27,049	438	26,985	421	64	17
Cooler	10,002	84	10,209	80	(207)	4
Beer	516,609	3,332	456,548	3,050	60,061	282
Total	595,331	5,535	535,311	5,098	60,002	437

Warehouse Sales Litres	Iqaluit		Rankin Inlet		Total		Change
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	
Spirits	30,307	29,929	11,364	11,640	41,671	41,569	102
Wine	22,083	22,127	4,966	4,858	27,049	26,985	64
Cooler	7,230	8,269	2,772	1,940	10,002	10,209	(207)
Beer	462,964	415,458	53,645	41,090	516,609	456,548	60,061
Total	522,584	475,783	72,747	59,528	595,331	535,311	60,002

Warehouse Sales ($'s)	Iqaluit		Rankin Inlet		Total		Change
	2009-10	2008-09	2009-10	2008-09	2009-10	2008-09	
	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Spirits	1,229	1,116	451	431	1,680	1,547	133
Wine	358	346	81	76	438	421	17
Cooler	61	65	24	15	84	80	4
Beer	2,998	2,787	334	262	3,332	3,050	282
Total	4,646	4,314	889	784	5,535	5,098	436

Import Permits, Licensee Fees, Licenses, and Special Occasion Permits generated a total of $808,190 in revenue. This is broken out by $627,318 in Import Permit Fees and $180,872 in Licensee Fees, License Renewal Fees and Special Occasion Permits.

	2009-10	2008-09	Change
	$000's	$000's	$000's
Import Fees	627	512	115
License & SOP	181	168	13
Total	808	680	128

Warehouse capacity in Iqaluit is consistently insufficient requiring a costly annual spring airlift resupply. While a new, expanded, facility would be one solution to the problem, such a capital expenditure must fit with the Government of Nunavut's overall capital expenditure planning process, imposing by consequence a long term approach to the problem. Other issues are the result of normal growing pains experienced by young organizations and usually involving the evolution of physical and human resources best practices.

Examples of the types of operational areas currently being developed by Commission staff are: finding soft ways to increase warehousing capacity, through better layouts and shipping methods, determining suitable purchasing procedures for the Commission's inventory, and moderate the impact of air freight charges. Addressing these types of issues is feasible in the short term as they represent the kind of obstacles normally encountered in the establishment of enterprise.

Gross sales grew, with an increase of $436,414 or 8.6% between 2008-2009 and 2009-2010, the Gross Margin increased by $184,784 or 6.6%, and the Net Income increased by $69,132 or 6.7%

The sealift order which is placed during the winter for the following spring sealift is calculated based on current inventory levels, prior year sealift received, historical sales, projected sales for following year and input from individual customers and licensees. In addition, the capacity of the warehouses in Rankin Inlet and Iqaluit is also a factor in the estimated order.

As a result of the work performed in undertaking the financial audit of the Commission, the Office of the Auditor General (OAG) issued a modified auditor's report for the year ending March 31, 2010. The auditor's report contains a disclaimer of opinion.

The rationale for this disclaimer of opinion was due to the multiple uncertainties that remained outstanding after the audit work had been completed. Specifically, three areas of weakness were identified. These were the bank reconciliation, sales revenue reconciliations, and proper documentation to support the amounts for purchases. As such, the OAG was not in a position to form an opinion on the 31 March 2010 financial statements of the Commission due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements

As a result of the disclaimer of opinion offered by the OAG, senior management at the Department of Finance stepped in to address the situation. A professional accountant was contracted to work with the Commission to address the deficiencies identified in the Auditor's report. The professional accountant started work in February 2012, at the Commission offices in Rankin Inlet, soon after it was determined that the OAG would be issuing a disclaimer of opinion. The professional accountant was tasked with the following:

- Complete or assist with account reconciliations, including the bank and various sub-ledger accounts, and provide correcting entries;
- Ensure that previous audit adjustments have been entered into the financial system;
- Review and update the internal controls, policies and procedures, with special attention to month end and year end processes and procedures, as required and in consultation with the Department of Finance;

- Review the manual systems in place for the tracking of gross margins, valuation of inventory, and cash management, and others, and identify which of these systems can be discontinued with the proper utilization of the upgraded AccPac software;
- Review and monitor the transition from AccPac 5.3 to 6.0, and assist NLM staff in identifying additional training, assist with the setup of all applicable modules software to its best potential while reducing or eliminating reliance on manual systems;
- Ensure that that proper accounting treatment is being used for GST, liquor import permits, bottle deposits, inventory, and reconciliation issues between FreeBalance, AccPac and Caseware; and
- Document the results of assistance provided using the appropriate or prescribed formats, and provide timely suggestions for improvements in process or format where warranted.

As of the writing of this report, the majority of the work required to address the deficiencies for the 2009-10 fiscal year has been accomplished. Work continues to finalize the 2009-10 year with the expectation that it will be complete by the end of May 2012. The consultant is also tasked to review the 2010-11 and 2011-12 fiscal years to ensure that similar errors are not present, and to take corrective action as required.

The Commission has scheduled to complete an upgrade to the AccPac financial accounting system from 5.3 to 6.0 by May 2012. This will assist in addressing the issues raised by the Office of the Auditor General by removing the reliance on error-prone manual systems.

NUNAVUT LIQUOR COMMISSION

Rankin Inlet, NU

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2010

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010

INDEX

	Page
MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING	1
AUDITOR'S REPORT	2 - 3
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheet	4
Consolidated Statement of Operations and Comprehensive Income	5
Consolidated Statement of Amount Due to the Government of Nunavut	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 16
Schedule of Income and Expenses:	
- Nunavut Liquor Commission	17
- Nunavut Liquor Enforcement and Inspections Division	18

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the Nunavut Liquor Commission (NLC) is responsible for the integrity and objectivity of the financial statements and related note disclosures. The financial statements were prepared in accordance with Canadian generally accepted accounting principles and, consequently, include some amounts which are based on the best estimates and judgment of management.

In carrying out its responsibilities, management is responsible for the operation of financial systems and related internal controls to provide reasonable assurance that financial information presented by the management of NLC is reliable, assets are safeguarded, transactions are properly authorized, resources are managed efficiently and economically, and operations are carried out effectively in the attainment of corporate objectives, and that transactions are in accordance with the *Liquor Act* and the *Financial Administration Act* of Nunavut.

It has come to our attention that during the fiscal year 2009-10, the NLC experienced weaknesses in financial controls and, as a result, was unable to ascertain the completeness of financial information. In response to this situation, we (the financial statement signatories) are in the process of reviewing the NLC's Financial Management Framework to ensure that NLC will strengthen its financial management.

The Auditor General of Canada is the NLC's auditor for fiscal year 2009-10. Our auditors have full access to the NLC, and meet periodically with us, to discuss the audit and related matters.

Chris D'Arcy
Deputy Minister
Department of Finance

Peter Tumilty, CGA
Assistant Deputy Minister
Policy and Planning
Department of Finance

March 16, 2012

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance of the Government of Nunavut

Report on the Consolidated Financial Statements

I was appointed to audit the accompanying consolidated financial statements of the Nunavut Liquor Commission, which comprise the consolidated balance sheet as at 31 March 2010, and the consolidated statement of operations and comprehensive income, consolidated statement of amount due to the Government of Nunavut and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on conducting the audit in accordance with Canadian generally accepted auditing standards. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Nunavut Liquor Commission did not maintain proper books of account. I was unable to confirm or verify by alternative means assets and liabilities as at 31 March 2010, and sales, cost of sales, other income, expenses and cash flows for the year ended 31 March 2010. As a result of this matter, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded assets and liabilities and the elements making up the consolidated statement of income and comprehensive income, consolidated statement of amount due to the Government of Nunavut and consolidated statement of cash flows.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

.../2

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of Nunavut, I report that I am unable to express an opinion on whether Canadian generally acceptable accounting principles have been applied on a basis consistent with the preceding year.

Further, in my opinion, as described in the following paragraphs, the transactions of the Nunavut Liquor Commission that have come to my notice during my audit of the consolidated financial statements have not, in all significant respects, been in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act (Nunavut)* and regulations and the by-laws of the Nunavut Liquor Commission.

Section 89 of the *Financial Administration Act* of Nunavut requires that the Nunavut Liquor Commission establish the form and content of financial records in accordance with accepted accounting principles and practices and establish and maintain systems and procedures to ensure that financial and other assets of the Nunavut Liquor Commission are properly managed, accounted for and controlled, and that all payments are properly authorized. The Nunavut Liquor Commission did not maintain proper books of account.

Under section 100(1) of the *Financial Administration Act* of Nunavut, the Nunavut Liquor Commission is required to submit its annual report to the appropriate Minister no later than 90 days after the end of its financial year, or an additional period, not exceeding 60 days that the Minister of Finance may allow. The Nunavut Liquor Commission did not meet its statutory deadline for submitting its annual report.

John Apt, CA
Principal
for the Auditor General of Canada

16 March 2012
Ottawa, Canada

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED BALANCE SHEET

As at March 31,	2010	2009
ASSETS		
Current Assets		
Cash	$ 550	$ 550
Accounts receivable	111,949	51,149
Inventories (note 5)	1,705,191	1,046,077
	1,817,690	1,097,776
Property and Equipment (note 6)	50,155	53,080
	$ 1,867,845	$ 1,150,856
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 910,706	$ 856,830
Employee future benefits (note 7)	46,012	35,657
Bottle deposit outstanding	29,848	21,412
Deferred revenue	32,296	35,563
Due to Government of Nunavut	848,983	201,394
	$ 1,867,845	$ 1,150,856

Commitments (note 8)

Approved:

Peter Tumilty, CGA
Assistant Deputy Minister
Policy and Planning
Department of Finance

Chris D'Arcy
Deputy Minister of Finance
Department of Finance

The accompanying notes and schedules are an integral part of these consolidated financial statements. 4

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31,	2010	2009
Sales	$ 5,534,650	$ 5,098,236
Cost of Sales	2,556,906	2,305,276
Gross Margin	2,977,744	2,792,960
Other Income		
Import fees	627,318	512,431
Licence, fees and permits	180,872	168,359
	3,785,934	3,473,750
Expenses		
Salaries and benefits	1,480,469	1,362,728
Rent	401,516	401,516
Bottle deposits refund	225,931	202,375
Travel	137,281	51,680
Contractor fees	93,540	101,276
Utilities	73,727	82,835
Professional fees	63,030	62,200
Bank charges and interest	44,848	34,691
Repairs and maintenance	43,601	53,570
Plebiscite expenses	40,326	-
Office	40,289	61,585
Communication	36,698	11,424
Amortization	12,582	13,095
Advertising and promotion	-	5,657
Bad debt (recovery) provision	(3,077)	3,077
	2,690,761	2,447,709
Net Income and Comprehensive Income	$ 1,095,173	$ 1,026,041

The accompanying notes and schedules are an integral part of these consolidated financial statements. 5

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF NUNAVUT

For the year ended March 31,	2010	2009
Balance, beginning of year	$ 201,394	$ 672,518
Net income for the year	1,095,173	1,026,041
Net transfer of funds to the Government of Nunavut	(447,584)	(1,497,165)
	$ 848,983	$ 201,394

The accompanying notes and schedules are an integral part of these consolidated financial statements. 6

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31,	2010	2009
Cash Flows from Operating Activities		
Cash receipts from customers	$ 6,278,773	$ 5,827,516
Cash paid to suppliers and employees	(5,821,532)	(4,330,051)
Cash transferred to the Government of Nunavut (Net)	(447,584)	(1,497,165)
Cash Provided by Operating Activities	9,657	300
Cash Flows from Investing Activities		
Purchase of property and equipment	(9,657)	-
Cash Used in Investing Activities	(9,657)	-
Net Increase / (Decrease) in Cash	-	300
Cash, beginning of year	550	250
Cash, end of year	$ 550	$ 550

The accompanying notes and schedules are an integral part of these consolidated financial statements. 7

NUNAVUT LIQUOR COMMISSION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010

1. Authority and Operations

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2009 - 2010 fiscal year, as the Government of Nunavut currently covers all of the expenses of the Nunavut Liquor Commission.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licenses and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

2. Significant Accounting Policies

(a) Consolidated Financial Statements

NLC's accounting policies are guided by the Canadian Institute of Chartered Accountants' Handbook. As such, the consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. There were no inter-entity balances and transactions which had to be eliminated in determining the consolidated figures.

2. Significant Accounting Policies (Continued)

(c) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, services received without charge, the provision for employee future benefits and the useful lives of equipment.

(d) Cash

A small cash float is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Government of Nunavut Consolidated Revenue Fund while all expenses of NLC are paid directly by the Government of Nunavut through the Consolidated Revenue Fund.

(e) Inventories

Inventories consist of alcohol products valued at the lower of weighted average cost or net realizable value.

(f) Accounts Receivable

Accounts receivable are valued at the lower cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the balance sheet date that are known at the date these consolidated financial statements are prepared.

(g) Property and Equipment

Equipment is initially recorded at cost, and is subsequently amortized to expense. Amortization expense is recognized on a declining balance basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

Computer hardware	30%
Computer software	100%
Furniture and equipment	20%

2. Significant Accounting Policies (Continued)

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave liabilities have been included in accrued liabilities.

(i) Bottle Deposit Liability

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licensees and clients to return recyclables for refund.

(j) Deferred Revenue

Revenues received in advance of goods being provided or services being performed are deferred. The amount is subsequently taken into income when the related goods are provided, or services are performed.

(k) Employee Future Benefits

Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 1.94 times the employees contribution for the calendar year of 2010 (2.02 times for the calendar year of 2009). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

2. Significant Accounting Policies (Continued)

(l) Revenue Recognition

The NLC has cash and credit sales. Cash sales of liquor and import fees are recorded when the customer places their order, it has been paid in full and the products have been shipped. Credit sales to commercial customers are recorded when the customer places the order and the products have been shipped.

Revenue from licence fees and permits are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

(m) Expenses

Expenses are recorded on an accrual basis. These expenses are paid directly by the Government of Nunavut through the Consolidated Revenue Fund.

(n) Services Provided Without Charge

Audit services are provided without charge to the NLC. No amount has been recognized in these financial statements in respect to the services provided.

(o) Financial Instruments

The NLC has elected the following Balance Sheet classifications with respect to its financial assets and financial liabilities:

- Cash is classified as "assets held-for-trading" and are initially measured at fair value.
- Accounts receivable are classified as "loans and receivables" and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities and due to the Government of Nunavut are classified as "other financial liabilities" and are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

The NLC has no financial instruments which have significant terms and conditions which may affect amount, timing and the certainty of future cash flows.

The NLC has no assets pledged.

The estimated fair values of these financial instruments are approximated by their carrying amounts due to the relatively short period to maturity of these instruments.

2. Significant Accounting Policies (Continued)

(p) Due to the Government of Nunavut

The *Liquor Act (Nunavut)* requires the NLC to present the amount owing to the Government of Nunavut. This is calculated by summing the following amounts: The Balance owing at the end of the prior year, the Net Income earned during the year less the net funds transferred to the Government of Nunavut during the year. The ending balance is normally carried forward to be funded from future year's net and comprehensive income.

This balance is a non-interest bearing liability.

(q) Comprehensive Income

Comprehensive income is composed of the NLC's net income and other comprehensive income, and requires certain unrealized gains and losses resulting from changes in fair value of certain financial instruments, that would otherwise be recorded as part of net income, to be presented in other comprehensive income until such a time as it is considered appropriate for them to be recognized in net income. The NLC has no transactions resulting in other comprehensive income.

3. Adoption of New Accounting Standards

Effective April 1, 2009, the NLC adopted the following sections of the *Canadian Institute of Chartered Accountants* Handbook:

Goodwill and Intangible Assets

Section 3064 - Goodwill and Intangible Assets. This section replaces *Section 3062 - Goodwill and Other Intangible Assets* and *Section 3450 - Research and Development Costs* and is effective for financial statements relating to fiscal years beginning on or after October 1, 2008. *Section 3064* establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standards did not have an impact on the NLC's financial statements.

4. Future Accounting Changes

The CICA issued new accounting standards which will be in effect for NLC's 2011-12 fiscal year.

Public Sector Accounting (PSA) – In December 2009, the *Public Sector Accounting Board (PSAB)* issued an amendment to the Introduction to Public Sector Accounting Standards of the PSA Handbook. This amendment eliminated the Government Business Type Organizations (GBTO) classification and entities currently classified as GBTO are required to re-assess their classification.

4. Future Accounting Changes (Continued)

Under the revised introduction, the NLC is classified as an Other Government Organization (OGO). As a OGO, NLC has determined the most appropriate basis of accounting to meet the needs of the users of its financial statements to be the standards issued by the *Public Sector Accounting Board*. NLC will adopt the standards issued by the *Public Sector Accounting Board* for its fiscal year beginning April 1, 2011. NLC is currently evaluating the impact of the adoption of these standards.

5. Inventories

	2010	2009
Spirits	$ 552,056	$ 207,217
Wine	236,389	69,795
Beer	869,258	761,984
Coolers and ciders	47,488	7,081
	$ 1,705,191	$ 1,046,077

6. Property and Equipment

			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 39,336	$ 27,507	$ 11,829	$ 5,173
Computer software	50,777	50,777	-	-
Furniture and equipment	97,638	59,312	38,326	47,907
	$ 187,751	$ 137,596	$ 50,155	$ 53,080

7. Employee Future Benefits

Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs.

Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	2010	2009
Employer's contributions	$ 76,014	$ 104,561
Employees' contributions	$ 40,126	$ 51,763

The Employee Future Benefits accrued by the NLC for the current year relate to accrued leave benefits.

8. Commitments

There is a ten year lease effective April 1, 2004, expiring April 1, 2014, for warehouse and office premises in Rankin Inlet. A five year lease agreement, effective April 1, 2007, and expiring April 1, 2012, for the liquor warehouse in Iqaluit valued at $120,000 per year is also in place. The minimum annual lease payments (which do not include any amount relating to the lease commitment for the liquor warehouse in Iqaluit, as per note 9) are as follows:

Fiscal year ending March 31	Total
2011	$ 281,516
2012	281,516
2013	281,516
2014	71,000
2015	-
	$ 915,548

9. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Crown corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut at cost and Qulliq Energy Corporation at normal trade terms, during the normal course of business:

	2010	2009
Government of Nunavut:		
Communications	$ 32,362	$ 7,299
Rent (note 8)	120,000	120,000
Repairs and maintenance	42,108	48,389
Utilities (water, sewage and fuel)	26,508	26,224
Purchase of property and equipment	9,657	-
Qulliq Energy Corporation		
Utilities (electricity)	11,636	14,630
	$ 242,271	$ 216,542

10. Capital Management

NLC's capital is cash, it has no Contributed Equity. NLC is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advanced for the 2009-10 fiscal year.

All revenues collected by the NLC are deposited into a bank account controlled by the Government of Nunavut. As the Government of Nunavut controls all cash deposited by the NLC, the Government of Nunavut pays for all the expenses of the NLC.

11. Financial Instruments and Risk Management

Fair Value - The fair values of accounts receivable, inventory, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity dates. It is not practicable to estimate the fair values of amount Due to Government of Nunavut as a result of the non-arm's length nature of the instruments.

Credit Risk - Credit risk refers to the potential that a customer or counter party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the NLC's receivables from customers. NLC has minimum exposure to credit risk from customers as collection is made prior to sales. Where necessary, the NLC performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses.

Interest Rate Risk - Interest rate risk is the risk that the fair values of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The NLC is not exposed to interest rate risk; because, the NLC has no investments or debt.

Liquidity Risk – Liquidity risk is the risk that the NLC will not be able to meet its financial obligations as they fall due. The NLC is not exposed to liquidity risk; because, the Government of Nunavut pays for all the expenses of the NLC.

Foreign Currency Risk - The NLC is not exposed to risk arising from fluctuation in foreign exchange rates since it enters into sales and purchase transactions denominated in Canadian currency.

Unless otherwise noted, it is management's opinion that NLC is not exposed to other significant interest, currency or credit risks arising from these financial instruments.

12. Comparative Figures

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

NUNAVUT LIQUOR COMMISSION

SCHEDULE OF INCOME AND EXPENSES - NUNAVUT LIQUOR COMMISSION

For the year ended March 31,	2010	2009
Sales	$ 5,534,650	$ 5,098,236
Cost of Sales	2,556,906	2,305,276
Gross Margin	2,977,744	2,792,960
Other Income		
Import fees	-	-
Licence, fees and permits	-	-
	2,977,744	2,792,960
Expenses		
Salaries and benefits	1,159,895	1,130,101
Rent	401,516	401,516
Bottle deposits refund	225,931	202,375
Utilities	73,727	82,835
Professional fees	63,030	62,200
Repairs and maintenance	43,601	53,570
Bank charges and interest	42,395	34,691
Travel	36,996	36,724
Office	35,205	48,900
Communication	32,785	7,357
Amortization	12,582	13,095
Advertising and promotion	-	5,657
Contractor fees	-	3,115
Bad debt (recovery) provision	(3,077)	3,077
	2,124,586	2,085,213
Net Income and Comprehensive Income	$ 853,158	$ 707,747

NUNAVUT LIQUOR COMMISSION

SCHEDULE OF INCOME AND EXPENSES - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

For the year ended March 31,	2010	2009
Sales	$ -	$ -
Cost of Sales	-	-
Gross Margin	-	-
Other Income		
Import fees	627,318	512,431
Licence, fees and permits	180,872	168,359
	808,190	680,790
Expenses		
Salaries and benefits	320,574	232,627
Travel	100,285	14,956
Contractor fees	93,540	98,161
Plebiscites expenses	40,326	-
Office	5,084	12,685
Communication	3,913	4,067
Bank charges and interest	2,453	-
	566,175	362,496
Net Income and Comprehensive Income	$ 242,015	$ 318,294